



**Auditor of State
Betty Montgomery**

MIDDLEBURY TOWNSHIP
KNOX COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Middlebury Township
Knox County
19084 Lucerne Road
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middlebury Township, Knox County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Middlebury Township, Knox County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund, Motor Vehicle License Fund, Gasoline Tax Fund, Road and Bridge Fund and Special Levy Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Township did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 15, 2006

MIDDLEBURY TOWNSHIP
KNOX COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$138,685</u>
<i>Total Assets</i>	<u><u>\$138,685</u></u>
Net Assets	
Restricted for:	
Other Purposes	114,413
Unrestricted	<u>24,272</u>
<i>Total Net Assets</i>	<u><u>\$138,685</u></u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
General Government	\$34,222	\$0	\$0	(\$34,222)
Public Works	105,048	0	102,782	(2,266)
Public Health Services	1,500	0	0	(1,500)
Human Services	0	1,060	0	1,060
Capital Outlay	62,299	0	0	(62,299)
<i>Total Governmental Activities</i>	<u>203,069</u>	<u>1,060</u>	<u>102,782</u>	<u>(99,227)</u>
		General Receipts		
		Property Taxes Levied for:		
		General Purposes	88,111	
		Grants and Entitlements not Restricted to Specific Programs	33,029	
		Interest	1,703	
		Miscellaneous	595	
		<i>Total General Receipts</i>	<u>123,438</u>	
		Change in Net Assets		24,211
		<i>Net Assets Beginning of Year</i>		<u>114,474</u>
		<i>Net Assets End of Year</i>		<u>\$138,685</u>

See accompanying notes to the basic financial statements

MIDDLEBURY TOWNSHIP
KNOX COUNTY

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Motor Vehicle License	Gasoline Tax	Road & Bridge	Special Levy	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$24,272	\$14,069	\$56,922	\$32,637	\$4,139	\$6,646	\$138,685
<i>Total Assets</i>	<u>\$24,272</u>	<u>\$14,069</u>	<u>\$56,922</u>	<u>\$32,637</u>	<u>\$4,139</u>	<u>\$6,646</u>	<u>\$138,685</u>
Fund Balances							
Unreserved:							
Undesignated, Reported in:							
General Fund	24,272	0	0	0	0	0	24,272
Special Revenue Funds	0	14,069	56,922	32,637	4,139	6,646	114,413
<i>Total Fund Balances</i>	<u>\$24,272</u>	<u>\$14,069</u>	<u>\$56,922</u>	<u>\$32,637</u>	<u>\$4,139</u>	<u>\$6,646</u>	<u>\$138,685</u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Motor Vehicle License	Gasoline Tax	Road & Bridge	Special Levy	Other Governmental Funds	Total Governmental Funds
Receipts							
Property and Other Local Taxes	\$19,596	\$0	\$0	\$29,533	\$38,982	\$0	\$88,111
Fines, Licenses and Permits	1,060	0	0	0	0	0	1,060
Intergovernmental	25,829	13,928	82,359	3,101	4,099	6,494	135,810
Interest	1,346	67	133	0	0	157	1,703
Miscellaneous	595	0	0	0	0	0	595
<i>Total Receipts</i>	<u>48,426</u>	<u>13,995</u>	<u>82,492</u>	<u>32,634</u>	<u>43,081</u>	<u>6,651</u>	<u>227,279</u>
Disbursements							
Current:							
General Government	34,222	0	0	0	0	0	34,222
Public Works	8,056	7,086	50,313	29,901	0	9,692	105,048
Public Health Services	1,500	0	0	0	0	0	1,500
Capital Outlay	1,079	219	0	0	61,000	0	62,298
<i>Total Disbursements</i>	<u>44,857</u>	<u>7,305</u>	<u>50,313</u>	<u>29,901</u>	<u>61,000</u>	<u>9,692</u>	<u>203,068</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>3,569</u>	<u>6,690</u>	<u>32,179</u>	<u>2,733</u>	<u>(17,919)</u>	<u>(3,041)</u>	<u>24,211</u>
Other Financing Sources (Uses)							
Transfers In	0	0	0	0	198	0	198
Transfers Out	(198)	0	0	0	0	0	(198)
<i>Total Other Financing Sources (Uses)</i>	<u>(198)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>198</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	3,371	6,690	32,179	2,733	(17,721)	(3,041)	24,211
<i>Fund Balances Beginning of Year</i>	<u>20,901</u>	<u>7,379</u>	<u>24,743</u>	<u>29,904</u>	<u>21,860</u>	<u>9,687</u>	<u>114,474</u>
<i>Fund Balances End of Year</i>	<u>\$24,272</u>	<u>\$14,069</u>	<u>\$56,922</u>	<u>\$32,637</u>	<u>\$4,139</u>	<u>\$6,646</u>	<u>\$138,685</u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$34,413	\$34,413	\$19,596	(\$14,817)
Fines, Licenses and Permits	1,200	1,200	1,060	(140)
Intergovernmental	22,130	28,630	25,829	(2,801)
Interest	200	200	1,346	1,146
Miscellaneous	7,240	7,240	595	(6,645)
<i>Total receipts</i>	<u>65,183</u>	<u>71,683</u>	<u>48,426</u>	<u>(23,257)</u>
Disbursements				
Current:				
General Government	45,584	45,584	34,222	11,362
Public Works	3,000	9,500	8,056	1,444
Public Health Services	1,500	1,500	1,500	0
Capital Outlay	36,000	36,000	1,079	34,921
<i>Total Disbursements</i>	<u>86,084</u>	<u>92,584</u>	<u>44,857</u>	<u>47,727</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(20,901)</u>	<u>(20,901)</u>	<u>3,569</u>	<u>24,470</u>
Other Financing (Uses)				
Transfers Out	0	(198)	(198)	0
<i>Net Change in Fund Balance</i>	(20,901)	(21,099)	3,371	24,470
<i>Fund Balance Beginning of Year</i>	<u>20,901</u>	<u>20,901</u>	<u>20,901</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>(\$198)</u></u>	<u><u>\$24,272</u></u>	<u><u>\$24,470</u></u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
MOTOR VEHICLE LICENSE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$14,522	\$14,522	\$13,928	(\$594)
Interest	50	50	67	17
<i>Total receipts</i>	<u>14,572</u>	<u>14,572</u>	<u>13,995</u>	<u>(577)</u>
Disbursements				
Current:				
Public Works	8,000	8,000	7,086	914
Capital Outlay	13,951	13,951	219	13,732
<i>Total Disbursements</i>	<u>21,951</u>	<u>21,951</u>	<u>7,305</u>	<u>14,646</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(7,379)</u>	<u>(7,379)</u>	<u>6,690</u>	<u>14,069</u>
<i>Net Change in Fund Balance</i>	<u>(7,379)</u>	<u>(7,379)</u>	<u>6,690</u>	<u>14,069</u>
<i>Fund Balance Beginning of Year</i>	<u>7,379</u>	<u>7,379</u>	<u>7,379</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$14,069</u>	<u>\$14,069</u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GASOLINE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$54,555	\$54,555	\$82,359	\$27,804
Interest	232	232	133	(99)
<i>Total receipts</i>	<u>54,787</u>	<u>54,787</u>	<u>82,492</u>	<u>27,705</u>
Disbursements				
Current:				
Public Works	73,655	67,155	50,313	16,842
<i>Total Disbursements</i>	<u>73,655</u>	<u>67,155</u>	<u>50,313</u>	<u>16,842</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(18,868)</u>	<u>(12,368)</u>	<u>32,179</u>	<u>44,547</u>
<i>Net Change in Fund Balance</i>	(18,868)	(12,368)	32,179	44,547
<i>Fund Balance Beginning of Year</i>	<u>24,743</u>	<u>24,743</u>	<u>24,743</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$5,875</u></u>	<u><u>\$12,375</u></u>	<u><u>\$56,922</u></u>	<u><u>\$44,547</u></u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$30,000	\$30,000	\$29,533	(\$467)
Intergovernmental	4,400	4,400	3,101	(1,299)
<i>Total receipts</i>	<u>34,400</u>	<u>34,400</u>	<u>32,634</u>	<u>(1,766)</u>
Disbursements				
Current:				
Public Works	64,304	64,304	29,901	34,403
<i>Total Disbursements</i>	<u>64,304</u>	<u>64,304</u>	<u>29,901</u>	<u>34,403</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(29,904)</u>	<u>(29,904)</u>	<u>2,733</u>	<u>32,637</u>
<i>Net Change in Fund Balance</i>	(29,904)	(29,904)	2,733	32,637
<i>Fund Balance Beginning of Year</i>	<u>29,904</u>	<u>29,904</u>	<u>29,904</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$32,637</u></u>	<u><u>\$32,637</u></u>

See accompanying notes to the basic financial statements

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
SPECIAL LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$44,000	\$44,000	\$38,982	(\$5,018)
Intergovernmental	1,100	1,100	4,099	2,999
<i>Total receipts</i>	<u>45,100</u>	<u>45,100</u>	<u>43,081</u>	<u>(2,019)</u>
Disbursements				
Current:				
Capital Outlay	62,821	62,821	61,000	1,821
<i>Total Disbursements</i>	<u>62,821</u>	<u>62,821</u>	<u>61,000</u>	<u>1,821</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(17,721)</u>	<u>(17,721)</u>	<u>(17,919)</u>	<u>(198)</u>
Other Financing (Sources)				
Transfers In	0	0	198	198
<i>Net Change in Fund Balance</i>	(17,721)	(17,721)	(17,721)	0
<i>Fund Balance Beginning of Year</i>	<u>21,860</u>	<u>21,860</u>	<u>21,860</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$4,139</u></u>	<u><u>\$4,139</u></u>	<u><u>\$4,139</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

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**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Note 1 – Reporting Entity

Middlebury Township, Knox County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, including road and bridge maintenance, and cemetery maintenance.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. All funds of the Township are governmental funds.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are the General Fund, Motor Vehicle License Fund, Gasoline Tax Fund, Road and Bridge Fund and the Special Levy Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio. The Motor Vehicle License Fund, Gasoline Tax Fund, Road and Bridge Fund and the Special Levy fund receive property tax receipts to pay for the constructing, maintaining and repair of Township roads and bridges. The other governmental funds of the Township account for other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Township's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Budgetary Process (Continued)

The appropriations ordinance is the Board of Trustee's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Board of Trustees.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

E. Cash

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2005, the Township maintained a money market savings account and checking account.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$1,346.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

G. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for road and bridge construction, maintenance and repair in the Gasoline Tax Fund, the Road and Bridge Fund and the Special Levy Fund.

The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

I. Interfund Transactions

Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Note 3 – Change in Presentation

In 2004, the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Township has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis – for State and Local Governments, as described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

In addition, for fiscal year 2005, the Township has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposits and Investment Risk Disclosure*". GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The implementation of this statement had no effect on the Township's financial statements for fiscal year 2005.

Note 4 – Compliance

Compliance

During fiscal year ending December 31, 2005, the Township did not properly certify all expenditures in accordance with Ohio Revised Code Section 5705.41(D) which prohibits a subdivision or taxing entity from ordering the expenditure of money unless a certificate signed by the fiscal officer is attached thereto.

In addition, the Township expended gasoline tax funds for the purpose of paying for services associated with cemetery grounds maintenance. Article XII, Section 5a of the Ohio Constitution and Ohio Revised Code Section 5735.27 both prohibit the use of these gasoline tax receipts for any expenditure other than for the purposes of planning, constructing, maintaining, widening, and reconstructing the public roads and highways within the Township. The Township Fiscal Officer posted an adjustment to reimburse the Gasoline Tax fund from the General Fund, which is reflected in the financial statements.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund, Motor Vehicle License Fund, Gasoline Tax Fund, Road and Bridge Fund and Special Levy Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 6 – Deposits and Investments

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 6 - Deposits and Investments (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$42,287 of the Township's bank balance of \$142,287 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2003, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 7 – Property Taxes (Continued)

The full tax rate for all Township operations for the year ended December 31, 2005, was \$4.50 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property:	
Residential	\$ 8,439,860
Agriculture	5,968,620
Commercial/Industrial/Mineral	2,248,450
Public Utility Property:	
Real	5,400
Personal	709,020
Tangible Personal Property	3,935,380
Total Assessed Value	\$21,306,730

Note 8 – Risk Management

Risk Pool Membership

The Township belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	2005	2004
Assets	\$8,219,430	\$6,685,522
Liabilities	(2,748,639)	(2,227,808)
Members' Equity	\$5,470,791	\$4,457,714

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

Note 8 – Risk Management (Continued)

Risk Pool Membership (Continued)

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Note 9 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$5,866, \$6,016, and \$6,268, respectively.

Note 10 - Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute.

MIDDLEBURY TOWNSHIP
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

Note 10 - Postemployment Benefits (Continued)

The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases.

Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual Township contributions for 2005 which were used to fund postemployment benefits were \$1,732. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 11 – Interfund Transfers

During 2005 the following transfers were made:

Transfers from the General Fund to:	
Special Levy Fund	\$ 198
Total Transfers from the General Fund	<u>\$ 198</u>

This transfer was to allocate to the Special Levy Fund unrestricted receipts collected in the General Fund to pay a portion of a road maintenance contract during the fiscal year.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Middlebury Township
Knox County
19084 Lucerne Road
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middlebury Township, Knox County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements. We have issued our report thereon dated September 15, 2006 wherein we noted the Township implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis – for State and Local Governments. We also noted that the Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the schedule of findings as finding numbers 2005-001 and 2005-002. In a separate letter to the Township's management dated September 15, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

September 15, 2006

MIDDLEBURY TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Noncompliance Citation

Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Sixty-five percent of expenditures tested in 2005 were not certified prior to the commitment being incurred, nor were they certified using a then-and-now certification. This procedure is not only required by Ohio law, but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of the Township’s funds being over expended or exceeding budgetary spending limitations.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2005-001 (Continued)

Noncompliance Citation (Continued)

Certification of Expenditures (Continued)

We recommend the Township Fiscal Officer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41 (D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

The Township has elected not to respond to this finding.

FINDING NUMBER 2005-002

Noncompliance Citation

Expenditure of Gasoline Tax Revenue

Article XII, Section 5a of the Ohio Constitution states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highway, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refunds and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on the public highways.

Ohio Revised Code § 5735.27 provides in part that gasoline tax receipts may be expended by a township only for the purposes of planning, constructing, maintaining, widening, and reconstructing the public roads and highways within the township.

During fiscal year 2005 the Township expended \$6,500 of gasoline tax revenue to pay non-employee compensation for services related to cemetery lawn mowing.

The use of the Township's gasoline excise tax revenue to pay the costs associated with lawn mowing services of a cemetery is not a permissible expenditure of the Gasoline Tax Fund.

The Township has posted an adjustment to reimburse the Gasoline Tax fund From the General Fund for 2005, which is reflected in the financial statements.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2005-002 (continued)

Noncompliance Citation (continued)

Expenditure of Gasoline Tax Revenue (continued)

Officials' Response:

The Township has elected not to respond to this finding.

**MIDDLEBURY TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Revised Code § 5705.41(D), Certification of expenditures.	No	Finding reissued as 2005-001 in current audit period.
2004-002	Revised Code § 5735.27, Exp of Gasoline Tax revenue.	No	Finding reissued as 2005-002 in current audit period.
2004-003	Revised Code § 5705.10 – Distribution of funds.	Yes	Fully Corrected



**Auditor of State
Betty Montgomery**

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800-282-0370

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MIDDLEBURY TOWNSHIP

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**